EGYPT

TRADE SUMMARY

The U.S. trade surplus with Egypt was $2.4 billion in 1999, a $9 million increase from 1998. U.S. merchandise exports to Egypt were $3 billion, down $34 million (1.1 percent) from 1998. Egypt was the United States' 33rd largest export market in 1999. U.S. imports from Egypt totaled $617 million in 1999, a 6.6 percent decrease from 1998. The stock of U.S. foreign direct investment in Egypt was nearly $2 billion in 1998, 21.3 percent higher than in 1997. U.S. direct investment in Egypt is largely concentrated in petroleum, manufacturing, and banking.

IMPORT POLICIES

Since 1992, Egypt has undertaken import policies to promote greater trade liberalization, including efforts to replace non-tariff barriers with tariffs and to reduce its maximum tariff rate. The government of Egypt's major focus is to promote exports. However, a widening trade deficit has put pressure on it on occasion to try to slow down the growth in imports. This pressure may have played a part in a November 1998, government of Egypt decree requiring that consumer goods be imported directly from the country of origin. However, in November 1999, the government of Egypt amended this trade measure to allow consumer goods to be sourced from manufacturers' regional branches or distribution centers and eased standards for proving the origin of goods. Despite a series of tariff reductions, tariff rates on a number of products remain high, and mandatory quality control standards and other non-tariff barriers restrict imports of some U.S. products. Exporters to Egypt are frequently handicapped by the lack of advance notification on changes in import regulations.

Tariffs

The government of Egypt has made progress towards liberalizing Egypt's tariff structure. In the Uruguay Round, Egypt bound over 98 percent of its tariffs. Egypt's applied rate in 1998 was 26.8 percent (21 percent if alcoholic beverages are excluded), much lower than the bound rate in 1997 of 45 percent. Although tariffs have declined by more than half, they still remain relatively high, especially when compared to other developing countries with large internal markets and diversified industrial economies. Egypt charges a service and inspection fee of one percent on imports. It also charges an additional fee of two percent on goods subject to import duties of five to twenty-nine percent, and a service charge of three percent on goods subject to import duties of 30 percent or more.

Although the maximum tariff dropped from 100 percent in 1992 to 40 percent in 1998, a number of products remain excluded from this tariff ceiling. These include tariffs for textiles, which were recently set at 54 percent, passenger cars with engines greater than 1,300 cc, at 85 to 110 percent, whole poultry at 70 percent, and canned fruit products at 55 percent. Foreign movies are subject to duties and import taxes equaling approximately 87 percent as well as a 10 percent sales tax. Egypt also applies a discriminatory sales tax on high quality imported flour of 10 percent (in addition to a five percent tariff) which does not apply to a locally produced flour. Some twelve percent of Egypt's tariffs have applied rates in excess of their bound rates, including those on several dairy products, such as non-fat dry milk, whey powder, grated cheese, and processed and other cheeses. The government of Egypt has said that importers can raise a complaint if applied rates violate bound tariffs.

Some of the high tariffs are for items previously banned, such as textiles, where tariffs were set at 54 percent, plus a 10 percent sales tax, and a one percent service fee. In replacing the ban on whole poultry, Egypt initially set a tariff of 80 percent which has now been reduced to 70 percent. Egyptian customs authorities state that it will be reduced to 60 percent by 2005.

Egyptian law requires that all persons or companies importing into Egypt must register with the General Authority for Export and Import Control within the Ministry of Economy and Foreign Trade and that all registered importers be Egyptian nationals. All goods imported into Egypt must be accompanied by a customs declaration except for goods destined for the free zones. Exporters and importers claim that customs duty valuation often is arbitrary and that the rates charged often are higher than prescribed in the tariff code.

Tariffs are calculated using the so-called "Egyptian Selling Price," based on the commercial invoice accompanying a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have no lower price than that noted on the invoice from the first shipment. As a result of this presumption of level or increasing prices, and the belief that under-invoicing is widely practiced, customs officials routinely increase invoice values from 10-30 percent for customs valuation purposes. As customs procedures become increasingly automated through the use of computers, customs officials will no longer be able to exercise such subjective judgment over valuation of imports, especially after the WTO Customs Valuation Agreement comes into force for Egypt on July 1, 2000. The government of Egypt issued a decree (Decree No. 619) in November 1998, requiring that consumer goods be shipped directly from the country of origin. However, a liberalized amendment to that decree, issued in November 1999, allows shipment from a manufacturer's branches or distribution centers and eased standards for proving the origin of goods.

Import Bans

Egypt has eliminated most outright import bans. Egypt's ban on apparel products is scheduled to be lifted in 2001 in accordance with its obligations under the WTO Agreement on Textiles and Clothing. Egypt continues to ban poultry parts, though there are some indications that turkey parts may soon be permitted. In November 1998, the government of Egypt issued Decree 580 stipulating that automobiles must be imported in the year of manufacture.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Standards are established by the Egyptian Organization for Standardization and Quality Control in the Ministry of Industry. However, verification of compliance is the responsibility of agencies affiliated to different ministries, including the Ministry of Health, the Ministry of Agriculture, the Atomic Energy Authority, and for imported goods by the General Authority for Export and Import Control in the Ministry of Economy and Foreign Trade. Administration of standards is made more complex by the fact that their formulation and enforcement is carried out by different organizations within different ministries with little or no inter-agency coordination. Since its accession to the WTO, Egypt has significantly increased efforts to bring Egyptian mandatory regulations into conformity with international standards. However, U.S. industry has expressed concern over the protectionist use of these regulations, rather than for legitimate health, safety and environmental protection concerns.

Egypt currently has about 4,000 standards; around 10 percent are mandatory. The majority of the mandatory standards are concerned with food products, engineering goods and textiles and clothing. Between 25 and 30 percent of Egyptian standards conform with international standards. Although Egyptian authorities stress that standards are applied even-handedly across the board, importers report that testing procedures for imports often differ and note that inadequately equipped laboratories often generate faulty analyses, which result in inaccurate test results; so far, about one percent of the standards issued since Egypt joined the WTO have been notified under the WTO agreement. In recent years efforts have been stepped up to increase the conformity of Egyptian standards with international standards.

Food imports are sometimes subject to arbitrary quality standards. For example, Egyptian Standard No. 1522 (1991) requires that meat imported for direct consumption contain no more than seven percent fat, and U.S. exporters, unable to meet this extraordinary requirement, estimate that they lose up to $2 million annually in sales of high quality beef to Egyptian beef producers who are not subject to these restrictions. New animal health requirements, implemented in 1998 restrict imports of U.S. dairy cattle. While standard international practice generally allows industry to regulate the shelf life of products, the government of Egypt requires that many imports (mainly foodstuffs) entering Egyptian ports must have 50 percent or more of their shelf life remaining. However, Egyptian shelf life standards ignore quality differences between producers and often have been established without any scientific justification. Regulations concerning food products are currently under review.

As tariffs and quantitative restrictions have been lowered, the list of imports subject to mandatory quality control has been expanded from 69 items in 1992 to 182 items in 1998. The list covers a wide range of categories including food stuffs, construction products, appliances, electric products, spare parts and consumer products. Inspections are carried out by the General Authority for Export and Import Control in the Ministry of Economy and Foreign Trade. Egypt is currently reviewing the system of mandatory quality control.

There are several labeling and packaging requirements. Poultry and meat products must be shipped directly from the country of origin to Egypt and sealed in packaging with details in Arabic both inside and outside the packaging. This requirement raises processing costs and discourages some exporters from competing in the market.

GOVERNMENT PROCUREMENT

Egypt is not a party to the WTO Agreement on Government Procurement, however, in 1998, Egypt passed a law outlining new regulations for government procurement. Among its provisions, the new law prohibits transforming a bid into a tender (a major defect of earlier legislation). In addition, it mandates that technical factors be considered in addition to price in the awarding of contracts. Previously, publicly-owned companies received preference, but under the new law, this preference only applies when the bid of a publicly-owned firm is within 15 percent of the other bids. The law also seeks to increase contractor rights through such steps as mandating the immediate return of deposits once the government announces the results of a tender. This law makes a number of positive changes to Egypt's government procurement practices, among them the requirement for an explanation of the grounds for a contract award. Concerns about transparency remain, however. For example, the Prime Minister has the authority to authorize the method of tendering for specific entities according to terms, conditions and rules which he determines.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

In 1997, 1998, and 1999 Egypt was placed on the "Special 301" Priority Watch List due to the continued lack of progress in patent protection and in the enforcement of copyright protection. Egypt is a member of the World Trade Organization (WTO). In 1999, the government of Egypt continued work on new legislation to meet its obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS).

The current Egyptian patent law (Law 132 of 1949) provides protection below international standards. Draft legislation designed to improve patent protection is under review, but the government likely will opt to take advantage of the additional five years' transition period granted to certain developing countries under the TRIPS agreement for providing patent protection for pharmaceuticals. The government of Egypt has provided assurances that, pending the adoption of legislation extending such protection, it will fully implement its obligations under the TRIPS agreement to provide exclusive marketing rights for pharmaceutical products.

Egypt has further strengthened its copyright protection laws but enforcement remains inadequate. Law 29 of 1994 amended the copyright law (Law 38 of 1992) to ensure that computer software was afforded protection as a literary work, allowing it a 50-year protection term. Law 38 of 1992, an amendment to the 1954 copyright law, provided specific protection to computer software and increased the penalties against piracy, but failure to impose deterrent penalties has fostered continued high levels of piracy. A 1994 decree also clarified rental and public performance rights, protection for sound recordings, and the definition of personal use. In the new IPR law Egypt plans to strengthen its protection against unauthorized recording of live performance and broadcasts. Copyright piracy continues to affect most categories of works, including motion pictures (in video cassette format), sound recordings (including through false registration), printed matter (notably medical textbooks), and computer software.

In the area of computer software protection, the government of Egypt has begun to target large-scale end users and has recently taken steps to increase the authorized use of legitimate software by government departments. However, more remains to be done in this area.

Egypt is completely revising its trademark law in order to provide additional legal protection for trademarks and industrial designs. The trademark law will have new definitions for "mark" and "well known mark" to correspond to the TRIPS definitions, and will prohibit third party use of identical marks, which will improve the quality and transparency of the trademark registration system. The current trademark law, Law 57 of 1939, is not enforced strenuously and the courts have only limited experience in adjudicating infringement cases.

Egypt provides some protection for undisclosed information, which will be increased under the draft IPR law, especially in the area of test data submitted as a condition of approving the marketing of pharmaceutical products. The government of Egypt currently does not protect chip layout design, but protections are incorporated in the draft IPR law. Also incorporated in the new draft IPR law is protection for geographical indications. The government has also recently established a contact point in the Ministry of Economy and Foreign Trade to handle inquiries about the TRIPS agreement.

Pharmaceutical price controls

The government controls prices in the pharmaceutical sector. In many instances, the government has not allowed pharmaceutical prices to rise with general inflation and foreign companies occasionally allege discrimination in the granting of price increases. In addition, there are also regulations regarding the manufacture and registration of pharmaceuticals in finished dosage forms and requiring foreign companies to license the manufacture and sale of imported drugs to local companies.

SERVICES BARRIERS

Egypt participated actively in the Uruguay round negotiations on services and made commitments in four sectors: construction, tourism, financial services, and international maritime transport. Egypt's General Agreement on Trade in Services (GATS) commitments tend to bind the existing policy framework, which is being gradually liberalized. Egypt is planning to participate fully in the GATS 2000 negotiations. Egypt restricts the employment of foreigners to 10 percent of the personnel employed by a company. There are restrictions on the acquisition of land by foreigners for commercial purposes.

Egypt has restrictions for most service sectors in which it has made GATS commitments. These restrictions relate to limits on foreign equity participation, up to 49 or 51 percent, such as in construction, insurance, and transport services. An economic needs test is used to determine commercial presence for foreign bank branches and in insurance. In the 1997 WTO Financial Services Agreement, Egypt agreed to allow foreign equity participation to rise from a maximum of 49 to 51 percent in "life, health, and personal accident" insurance as of December 31, 1999. It also committed to relaxing its economic needs test in life, health and personal accident insurance in the year 2000 and in non-life insurance in the year 2002.

Banking

In 1998, legislation was passed to allow the privatization of four state banks that account for almost 50 percent of the banking sector's total assets. The government of Egypt has said that although it would have no objection to selling its majority ownership, the banks would remain under Egyptian control and no investor would be allowed to hold more than 10 percent equity in the bank. Of Egypt's 63 banks, 241 are foreign bank branches and 23 are joint-venture banks with foreign participation. The decision to allow foreign banks to set up branches in Egypt is based on an economic needs test. Foreign banks may also establish joint-venture banks in Egypt. In its 1997 WTO financial services commitments, Egypt did not limit foreign equity in such joint-ventures, but both foreign and domestic investors must obtain Central Bank approval to hold more than 10 percent of the equity of a bank. The Central Bank has not issued new bank licenses, either to foreign or domestic investors, for several years because of concerns of excess capacity in the sector. Egypt allows existing foreign bank branches to conduct local currency operations and two U.S. bank branches have licenses to do so.

Insurance

In 1998, the Egyptian government passed legislation which permits private investment in Egypt's three state-owned insurance companies. The law also removed all restrictions on minority foreign ownership of Egyptian insurance firms and abolished the prohibition on foreign nationals from serving as corporate officers. Foreign participation in Egypt's insurance market was first permitted by a 1995 law allowing foreign companies to hold up to a 49 percent stake. There are five private-sector Egyptian insurance companies, three of which are joint ventures with U.S. firms. Egypt continues to prohibit foreign insurance companies from establishing agencies or branches. Egypt has committed to relax its economic needs test in life, health, and personal accident insurance in 2000 and in non-life insurance in 2002. Egypt has made commitments to allow life and reinsurance brokerage on a cross-border basis. However, foreign insurance brokerage firms still are not permitted to establish offices in Egypt.

Securities

International investors are permitted to operate in the Egyptian stock market largely without restriction. Foreign brokers, including U.S. and European firms, are permitted to operate in the Egyptian stock exchange and have established or purchased stakes in brokerage companies. Egypt's WTO financial services commitment in the securities sector provides for unrestricted market access and national treatment in the sector.

Telecommunications

In October 1999, the government of Egypt created a new Ministry of Communications and Information Technology. The government had previously converted a government authority into Telecom Egypt (still currently state-owned), established a regulatory board for telecommunications and spun off responsibility for Internet, cellular telephone and pay telephone to the private sector. In recent years, Egypt's telecommunication infrastructure has undergone extensive modernization with the addition of five million lines. The government has indicated that it plans to sell 20 percent of Telecom Egypt in the first quarter of 2000. In 1996, a government-owned firm with an initial GSM capacity of 90,000 lines was created as an entity within Telecom Egypt predecessor ARENTO.

Early 1998 saw the establishment of two private companies Mobinil and Misrphone, which were granted cellular licenses, the latter of which taking over Telecom Egypt's cellular operations. This marked the first major entry of the private sector as operators in this sector and eventually boosted the total numbers of cell phones subscribers to 800,000. As of year end 1999, Telecom Egypt also had awarded contracts to two firms to install and operate pay phones. Foreign firms actively compete for contracts as Telecom Egypt works to expand and modernize its networks and switching equipment. However, in general, Telecom Egypt does not buy consulting or management services, and foreign firms do not currently play a significant operating role in Egypt's grid. Egypt has not yet undertaken obligations under the WTO Basic Telecommunications Agreement or the WTO Information Technology Agreement. However, some government of Egypt officials have expressed interest in both.

Maritime and Air Transportation

About 25 percent of Egypt's international trade is carried by ships flying the national flag, and receiving several incentives. In 1998, the government of Egypt passed a law permitting the private sector to carry out most maritime transport activities, including loading, supplying, and ship repair. Egypt also passed a law permitting private firms to build and operate new airports.

OTHER SERVICES BARRIERS

Egypt maintains several other barriers to the provision of services by U.S. firms. Foreign motion pictures are subject to a screen quota and limitations on the number of prints of a foreign film a distributor may import. Private and foreign air carriers may not operate charter flights to and from Cairo except with the approval of the national carrier. Only local nationals may become certified accountants. Private firms dominate advertising, accounting, car rental, and a wide range of consulting services.

INVESTMENT BARRIERS

Under the 1992 U.S.-Egypt Bilateral Investment Treaty (BIT), Egypt is obliged to maintain critical elements of an open investment regime, including national and Most-Favored-Nation (MFN) treatment of foreign investment (with exceptions limited by the Treaty), the right to make free financial transfers freely and without delay, and international law standards for expropriation and compensation. Moreover, the BIT establishes procedures for U.S. investors in Egypt to directly enforce the treaty's obligations, including international arbitration. Generally, current Egyptian law meets or surpasses BIT standards in all categories.

A 1997 law reaffirmed basic guarantees for investors and modified the framework for investment incentives. It offers automatic approval for most new-to-market companies and particular advantages for investors in 16 sectors including agriculture, maritime, transportation, and computer software development. Automatic approval does not extend to military and related products. The 1997 law permits the General Authority for Free Zones and Investment (GAFI), now a unit of the Ministry of Economy, substantial discretion in granting investment incentives. In general, incentives are geographically-based to encourage investment outside Cairo, with tax holidays of up to 20 years available to companies located in parts of upper Egypt. Current tax law does not grandfather favorable tax treatment to investments in expanded capacity in existing operations.

The People's Assembly amended the Companies Law (Law 159 of 1981) in 1998 to streamline procedures for establishing a new firm. In addition, the government reaffirmed its commitment to introduce a "unified" companies law to rationalize the multiple laws addressing incorporation procedures and eligibility for tax benefits and other incentives, although it did not set a target date for this effort.

The transition period under the WTO Agreement on Trade-Related Investment Measures (TRIMS) for Egypt ended January 1, 2000. Egypt maintains preferential tariff rates for auto parts, which are granted in exchange for reaching specified levels of local content. Some of Egypt's trading partners have questioned whether this is consistent with its obligations under the TRIMS Agreement. The United

States is working in the WTO to ensure that WTO members meet these obligations.

ANTI-COMPETITIVE PRACTICES

Egypt does not have a basic antitrust law. Given the relatively small size of the economy, most sectors are dominated by only a few players, whether private or public, and anti-competitive practices are a structural feature of the economy. Egypt is in the process of developing an antitrust law which is expected to incorporate aspects of earlier legislation on dumping, monopolies, and price fixing.

ELECTRONIC COMMERCE

Although both the Government of Egypt and the Egyptian private sector are very interested in developing electronic commerce, the current level of activity is low. The main hurdles to expanding electronic commerce in Egypt are the relatively high prices charged for Internet services and the relatively small number of users. Businesses also pay very high fees for dedicated Internet lines. Deregulation of the telecommunications sector and opening it to the private sector will lay the framework for the growth of electronic commerce in Egypt. To facilitate electronic commerce on a national scale, the prices of personal computers need to fall. In order to encourage the growth of electronic commerce, the government of Egypt recently announced plans to reduce import duties on imported computer components from twenty to five percent. In October 1999, Egypt and the United States signed a joint statement on electronic commerce designed to support the development of electronic commerce in Egypt. In November 1999, the United States and Egypt agreed to establish an electronic commerce Task Force to focus on business opportunities and government policies related to electronic commerce.

TRADE AND INVESTMENT FRAMEWORK AGREEMENT

As Egypt continues its transition from a command to a market economy, the business climate is slowly improving. Lack of transparency, excessive bureaucracy and low-level corruption are barriers to doing business in Egypt. The government of Egypt is trying to address at least some of these problems, however, through changes in procedures including increased computerization. In July 1999, the U.S. Trade Representative, Ambassador Charlene Barshefsky, and Minister of Economy and Foreign Trade, Youssef Boutros Ghali, signed a Trade and Investment Framework Agreement (TIFA) to serve as a forum for consultations on trade matters and in November 1999, the bilateral TIFA Council had its first meeting in Cairo.